

CITY OF ELDON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

TABLE OF CONTENTS

	Page
OFFICIALS	3
INDEPENDENT AUDITOR’S REPORT	4-5
BASIC FINANCIAL STATEMENTS	
Exhibit	
Government-Wide Financial Statements:	
A Statement of Activities and Net Assets – Cash Basis	8-11
Governmental Fund Financial Statements:	
B Statement of Cash Receipts, Disbursements and Changes in Cash Balances	12-13
Proprietary Fund Financial Statements:	
C Statement of Cash Receipts, Disbursements and Changes in Cash Balances	14
Fiduciary Fund Financial Statements:	
D Statement of Changes in Cash Balances	15
Notes to Financial Statements	16-24
OTHER INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances –	
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	26-27
Notes to Other Information – Budgetary Reporting	28
SUPPLEMENTARY INFORMATION:	
Schedule	
1 Schedule of Cash Receipts, Disbursements and Changes in Cash Balances –	
Nonmajor Governmental Funds	30
Detail Schedule of Cash Transaction:	
2 General Fund	31-33
3 Enterprise Funds	34-37
4 Schedule of Indebtedness	38-39
5 Note Maturities	40
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL	
OVER FINANCIAL REPORTING	41-42
SCHEDULE OF FINDINGS	43-46

CITY OF ELDON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Shirley Stacey	Mayor	Jan. 2014
Kaye Cranston	Council Member	Jan. 2014
Linda Durflinger	Council Member	Jan. 2014
Jerry Potts	Council Member	Jan. 2014
Roger Gosnell	Council Member	Jan. 2014
Reed Vass	Council Member	Jan. 2014
Carrie Teninty	Clerk/Treasurer	Indefinite
Paul Zingg	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eldon, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Eldon's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eldon as of and for the year ended June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated March 26, 2013 on our consideration of the City of Eldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eldon's basic financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eldon's basic financial statements. Budgetary comparison information on pages 26 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Oskaloosa, Iowa
March 26, 2013

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Basic Financial Statements

CITY OF ELDON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2012

		Program Receipts		
		Charges	Operating	Capital Grants,
	Disbursements	for Services	Grants, Contributions and Restricted Interest	Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 100,013	\$ 1,400	\$ 13,773	\$ -
Public works	324,696	90,078	-	92,235
Culture and recreation	65,260	7,728	11,613	-
Community and economic development	7,164	-	-	-
General government	127,465	10,310	-	-
Debt service	19,853	-	-	-
Total governmental activities	644,451	109,516	25,386	92,235
Business type activities:				
Water	173,297	149,644	-	7,200
Sewer	79,954	69,790	-	-
Garbage	65,209	75,831	-	-
Storm water	43,106	9,003	-	-
Total business type activities	361,566	304,268	-	7,200
Total	\$ 1,006,017	\$ 413,784	\$ 25,386	\$ 99,435

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (84,840)	\$ -	\$ (84,840)
(142,383)	-	(142,383)
(45,919)	-	(45,919)
(7,164)	-	(7,164)
(117,155)	-	(117,155)
(19,853)	-	(19,853)
(417,314)	-	(417,314)
-	(16,453)	(16,453)
-	(10,164)	(10,164)
-	10,622	10,622
-	(34,103)	(34,103)
-	(50,098)	(50,098)
(417,314)	(50,098)	(467,412)

CITY OF ELDON
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2012

General Receipts:

Property and other taxes levied for:

General purposes

Employee benefits

Debt service

Emergency

Local option sales tax

Grants and contributions not restricted to
specific purpose

Unrestricted interest on investments

Capital loan note proceeds

Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets:

Nonspendable:

Cemetery perpetual care

Restricted:

Streets

Employee benefits

Debt service

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ 105,526	\$ -	\$ 105,526
39,443	-	39,443
19,721	-	19,721
2,647	-	2,647
100,573	-	100,573
7,164	-	7,164
2,095	-	2,095
62,000	-	62,000
20,121	9,079	29,200
359,290	9,079	368,369
(58,024)	(41,019)	(99,043)
255,954	263,651	519,605
<u>\$ 197,930</u>	<u>\$ 222,632</u>	<u>\$ 420,562</u>
\$ 9,041	\$ -	\$ 9,041
17,262	-	17,262
41,648	-	41,648
10,117	-	10,117
84,924	76,340	161,264
34,938	146,292	181,230
<u>\$ 197,930</u>	<u>\$ 222,632</u>	<u>\$ 420,562</u>

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2012

	Special Revenue					Nonmajor Governmental Funds	Total
	General	Road Use Tax	Employee Benefits	Capital Projects			
Receipts:							
Property and other taxes	\$ 206,099	\$ -	\$ 39,443	\$ -	\$ 22,368	\$	267,910
Other City tax	8,650	-	-	-	-		8,650
Licenses and permits	1,490	-	-	-	-		1,490
Use of money and property	2,710	-	-	-	-		2,710
Intergovernmental	22,807	-	-	92,235	-		115,042
Charges for service	19,438	90,078	-	-	-		109,516
Miscellaneous	19,109	-	-	-	-		19,109
Total receipts	280,303	90,078	39,443	92,235	22,368		524,427
Disbursements:							
Operating:							
Public safety	100,013	-	-	-	-		100,013
Public works	7,200	97,480	-	220,016	-		324,696
Culture and recreation	65,260	-	-	-	-		65,260
Community and economic development	7,164	-	-	-	-		7,164
General government	95,175	-	32,290	-	-		127,465
Debt Service	-	-	-	-	19,853		19,853
Total disbursements	274,812	97,480	32,290	220,016	19,853		644,451
Excess (deficiency) of receipts over (under) disbursements	5,491	(7,402)	7,153	(127,781)	2,515		(120,024)
Other financing sources:							
Water revenue capital loan note proceeds (note 3)	-	-	-	62,000	-		62,000
Net change in cash balances	5,491	(7,402)	7,153	(65,781)	2,515		(58,024)
Cash balances beginning of year	127,616	24,664	34,495	45,891	23,288		255,954
Cash balances end of year	\$ 133,107	\$ 17,262	\$ 41,648	\$ (19,890)	\$ 25,803	\$	197,930

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2012

	<u>Special Revenue</u>				Nonmajor	
	General	Road Use Tax	Employee Benefits	Capital Projects	Governmental Funds	Total
Cash Basis Fund Balances:						
Nonspendable:						
Cemetery perpetual						
Care	\$ -	\$ -	\$ -	\$ -	9,041	\$ 9,041
Restricted for:						
Police	3,650	-	-	-	-	3,650
Gothic trails	42,729	-	-	-	-	42,729
Volunteer fire department	1,933	-	-	-	-	1,933
Library	13,874	-	-	-	-	13,874
Fire and rescue	8,661	-	-	-	-	8,661
River overlook	4,363	-	-	-	-	4,363
Other purposes	3,069	-	-	-	-	3,069
Special revenue funds	-	17,262	41,648	-	6,645	65,555
Debt service	-	-	-	-	10,117	10,117
Unassigned	54,828	-	-	(19,890)	-	34,938
Total cash basis fund balances	\$ <u>133,107</u>	\$ <u>17,262</u>	\$ <u>41,648</u>	\$ <u>(19,890)</u>	\$ <u>25,803</u>	\$ <u>197,930</u>

See notes to financial statements.

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2012

	Enterprise Funds				
	Water	Sewer	Garbage	Storm Water	Total
Operating receipts:					
Charges for services	\$ 149,644	\$ 69,790	\$ 75,831	\$ 9,003	\$ 304,268
Operating disbursements:					
Business type activities	145,764	64,943	65,209	43,106	319,022
Excess (deficiency) of operating receipts over (under) operating disbursements	3,880	4,847	10,622	(34,103)	(14,754)
Non-operating receipts (disbursements):					
Miscellaneous	11,125	1,705	3,449	-	16,279
Debt service	(27,533)	(15,011)	-	-	(42,544)
Total non-operating receipts (disbursements)	(16,408)	(13,306)	3,449	-	(26,265)
Excess (deficiency) of receipts over (under) disbursements	(12,528)	(8,459)	14,071	(34,103)	(41,019)
Cash balances beginning of year	116,510	82,573	36,933	27,635	263,651
Cash balances end of year	\$ 103,982	\$ 74,114	\$ 51,004	\$ (6,468)	\$ 222,632
Cash basis fund balances:					
Restricted for:					
Depreciation	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Reserve	60,340	-	6,000	-	66,340
Unrestricted	33,642	74,114	45,004	(6,468)	146,292
Total cash basis fund balances	\$ 103,982	\$ 74,114	\$ 51,004	\$ (6,468)	\$ 222,632

See notes to financial statements.

CITY OF ELDON
STATEMENT OF CHANGES IN CASH BALANCES
FIDUCIARY FUNDS
As of and for Year Ended June 30, 2012

	Private Purpose Expendable Trusts		
	Sales Tax Collected	Water Department	Total
Additions:			
Miscellaneous:			
Amounts collected	\$ 10,923	\$ 2,200	\$ 13,123
Deductions:			
Public works:			
Collections remitted	10,771	2,460	13,231
Net	152	(260)	(108)
Cash balances beginning of year	8,258	10,167	18,425
Cash balances end of year	<u>\$ 8,410</u>	<u>\$ 9,907</u>	<u>\$ 18,317</u>

See notes to financial statements.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

The City of Eldon is a political subdivision of the State of Iowa located in Wapello County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer, storm water and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Eldon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The city has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the city but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Wapello County Assessor's Conference Board, Wapello County Emergency Management Commission, and Wapello County Joint E-911 Service board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund accounts for taxes levied for certain employee benefits relating to police and fire protection.

The Capital Projects Fund is used to account for all resources used in the construction and acquisition of capital facilities and other capital assets.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Storm Water Fund accounts for the operation and maintenance of the City's storm sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's garbage collection system.

The City also reports fiduciary funds which account for the changes in cash balances and includes private purpose expendable trusts.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The City of Eldon maintains its financial records and prepares its financial statements on the basis of cash receipts and disbursements, which does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – all amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, public works, and community and economic development functions.

Note 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2012 are as follows:

Type	Fair Value
U.S. government securities	\$ 20,808

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 2. Cash and Pooled Investments (continued)

The City's investments in governmental securities are not subject to credit rating.

Note 3. Long-Term Liabilities

Governmental Activities

General Obligation Capital Loan Notes

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>
2013	4.50 %	\$ 11,202	\$ 8,651
2014	4.50	11,707	8,146
2015	4.50	12,233	7,620
2016	4.50	12,784	7,069
2017	4.50	13,359	6,494
2018	4.50	13,960	5,893
2019	4.50	14,589	5,264
2020	4.50	15,245	4,607
2021	4.50	15,931	3,922
2022	4.50	16,648	3,205
2023	4.50	17,397	2,456
2024	4.50	18,180	1,673
2025	4.50	<u>18,442</u>	<u>855</u>
Total		\$ <u>191,677</u>	\$ <u>65,855</u>

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 3. Long-Term Liabilities (continued)

Governmental Activities (continued)

Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,110
Sick leave	
Comp time	<u>999</u>
Total	<u>\$ 4,109</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

Business-type Activities

Revenue Notes

Sewer and Water Revenue Capital Loan Notes

On September 2, 1997, the City issued \$270,900 in Sewer Revenue Capital Loan Notes. The notes have an interest rate of 4.5% and are payable through the year ending June 30, 2037.

On January 31, 2010, the City issued \$353,000 in Water Revenue Capital Loan Notes. The notes have an interest rate of 3.0% and are payable through the year ending June 30, 2030.

On July 27, 2011, the City issued \$62,000 in water revenue capital loan notes. The notes are payable through the year ended June 30, 2031 and have an interest rate of 3.0%.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 3. Long-Term Liabilities (continued)

Revenue Notes (continued)

Annual debt service requirements to maturity for all City revenue notes are as follows:

Year Ending June 30,	Principal	Interest
2013	\$ 21,033	\$ 21,588
2014	21,260	20,821
2015	22,496	20,005
2016	23,744	19,217
2017	24,002	18,519
2018	25,272	17,709
2019	26,555	16,856
2020	26,850	15,962
2021	28,158	15,053
2022-2026	153,920	60,545
2027-2031	159,994	30,706
2032-2036	63,548	11,508
2037	<u>12,100</u>	<u>535</u>
Total	<u>\$ 608,932</u>	<u>\$ 269,024</u>

The City has pledged future sewer and water customer receipts net of specific operating disbursements to repay the principal and interest due on the revenue notes as issued on September 1997, January 2010, and July 2011. Proceeds from the notes provide financing for improvements to the wastewater treatment system and to the water tower. Annual principal and interest payments on the notes are expected to require less than 28% of sewer tax receipts and 18% of water tax receipts. For the current year, principal and interest paid and total customer net receipts were \$41,539 and \$225,064, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

CITY OF ELDON

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual salary and the City is required to contribute 8.07% of annual covered payroll, except for police employees, in which case the percentages are 6.65% and 9.97%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$13,184, equal to the required contribution.

Note 5. Other Postemployment Benefits

Plan description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$407.70 for single coverage and \$1,022.14 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$21,561 to the plan.

Note 6. Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its member. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF ELDON

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 6. Risk Management (continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$22,748.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Financial Condition

The Capital Projects Fund had a deficit fund balance of \$19,890 at June 30, 2012. The Enterprise Fund, Storm Water had a deficit fund balance of \$6,468 at June 30, 2012.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 8. Subsequent Event

On March 5, 2013, the City approved by City-wide election the renewal of the one cent local option sales and services tax. The tax will be effective until January 1, 2024.

Other Information

CITY OF ELDON

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 267,910	\$ -	\$ 267,910
Other city tax	8,650	-	8,650
License and permits	1,490	-	1,490
Use of money and property	2,710	-	2,710
Intergovernmental	115,042	-	115,042
Charges for services	109,516	304,268	413,784
Miscellaneous	19,109	16,279	35,388
Total receipts	<u>524,427</u>	<u>320,547</u>	<u>844,974</u>
Disbursements:			
Public safety	100,013	-	100,013
Public works	324,696	-	324,696
Culture and recreation	65,260	-	65,260
Community and economic development	7,164	-	7,164
General government	127,465	-	127,465
Debt service	19,853	-	19,853
Business type activities	-	361,566	361,566
Total disbursements	<u>644,451</u>	<u>361,566</u>	<u>1,006,017</u>
Excess (deficiency) of receipts over (under) disbursements	(120,024)	(41,019)	(161,043)
Other financing sources (uses), net	<u>62,000</u>	-	<u>62,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(58,024)	(41,019)	(99,043)
Balances beginning of year	<u>260,954</u>	<u>268,651</u>	<u>529,605</u>
Balanced end of year	<u>\$ 202,930</u>	<u>\$ 227,632</u>	<u>\$ 430,562</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 159,022	\$ 159,022	\$ 108,888
100,917	100,917	(92,267)
6,615	6,615	(5,125)
3,500	3,500	(790)
206,853	206,853	(91,811)
333,000	333,000	80,784
15,290	15,290	20,098
825,197	825,197	19,777
68,285	68,285	(31,728)
98,812	98,812	(225,884)
151,158	151,158	85,898
-	-	(7,164)
223,188	223,188	95,723
19,853	19,853	-
333,000	365,106	3,540
894,296	926,402	(79,615)
(69,099)	(101,205)	(59,838)
-	-	62,000
(69,099)	(101,205)	2,162
392,468	392,468	137,137
\$ 323,369	\$ 291,263	\$ 139,299

CITY OF ELDON

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Permanent Fund, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$32,106. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, public works, and community and economic development functions.

Supplementary Information

CITY OF ELDON

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for Year Ended June 30, 2012

	<u>Special Revenue Emergency</u>	<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
Receipts:				
Property tax	\$ 2,647	\$ 19,721	\$ -	\$ 22,368
Disbursements:				
Operating:				
Debt service	-	19,853	-	19,853
Excess (deficit) receipts over (under) disbursements	2,647	(132)	-	2,515
Cash balances beginning of year	3,998	10,249	9,041	23,288
Cash balances end of year	\$ 6,645	\$ 10,117	\$ 9,041	\$ 25,803
Cash basis fund balances:				
Reserved:				
Debt service	\$ -	\$ 10,117	\$ -	\$ 10,117
Unreserved:				
Special revenue funds	6,645	-	-	6,645
Permanent funds	-	-	9,041	9,041
	\$ 6,645	\$ 10,117	\$ 9,041	\$ 25,803

See accompanying independent auditor's report.

CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2012

Receipts:	
Local taxes:	
Property tax	\$ 105,526
Local option sales and services taxes	100,573
	<u>206,099</u>
Other City tax:	
Cable franchise fee	<u>8,650</u>
Licenses and permits:	
Cigarette	150
Beer and liquor	1,055
Building	235
Rental registrations	50
	<u>1,490</u>
Use of money and property:	
Interest on investments	2,060
Rent	650
	<u>2,710</u>
Intergovernmental:	
State grant	13,773
County library allocation	9,034
	<u>22,807</u>
Charges for service:	
Various charges	9,128
Charges for services	10,310
	<u>19,438</u>
Miscellaneous:	
Returned check charges	220
Sale cemetery lots	3,550
Library fines	124
Parking violation fees	5
Grants	9,000
Merchandise sale	734
Court fines	2,029
Contributions	3,447
	<u>19,109</u>
Total receipts	<u>280,303</u>

CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2012

Disbursements:		
Public Safety:		
Police:		
Personal services	\$	39,181
Services and commodities		<u>16,740</u>
		<u>55,921</u>
Fire department:		
Personal services		3,074
Services and commodities		<u>40,260</u>
		<u>43,334</u>
Animal control:		
Services and commodities		<u>758</u>
		<u>100,013</u>
Public Works:		
Other public works:		
Current operation		<u>7,200</u>
Culture and Recreation:		
Library:		
Personal services		17,684
Services and commodities		<u>12,163</u>
		<u>29,847</u>
Locktender House:		
Services and commodities		<u>160</u>
Parks and recreation:		
Capital projects		<u>8,853</u>
American Gothic Trail:		
Services and commodities		<u>10,446</u>
Cemetery:		
Personal services		11,808
Services and commodities		<u>4,146</u>
		<u>65,260</u>
Community and Economic Development:		
Payments to other agencies		<u>7,164</u>

CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2012

Disbursements (continued):

General Government:

Mayor and Council Members:

Personal services	\$ <u>4,376</u>
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Financial administration:

Personal services	14,404
Services and commodities	<u>11,861</u>
	<u>26,265</u>

Legal services	<u>12,242</u>
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Insurance	<u>22,747</u>
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City Hall and general buildings:

Services and commodities	12,317
Construction	<u>17,228</u>
	<u>29,545</u>
	<u>95,175</u>

Total disbursements	<u>274,812</u>
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Excess of receipts over disbursements	5,491
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Balance beginning of year	<u>127,616</u>
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Balance end of year	<u>\$ <u>133,107</u></u>
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See accompanying independent auditor's report.

CITY OF ELDON
COMBINING DETAILED SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUNDS
Year Ended June 30, 2012

	<u>Water Operating</u>	<u>Water Depreciation</u>	<u>Water Reserve</u>	<u>Sewer Operating</u>
Operating receipts:				
Charges for services:				
Sales of services	\$ 144,041	\$ -	\$ -	\$ 69,790
Other charges for services	5,603	-	-	-
Total operating receipts	<u>149,644</u>	<u>-</u>	<u>-</u>	<u>69,790</u>
Operating disbursements:				
Business type activities:				
Personal:				
Regular	36,625	-	-	26,736
Administrative	9,203	-	-	9,073
Purchased water	57,673	-	-	-
Payments to other agencies	-	-	-	-
Operating supplies	22,537	-	-	18,597
Other supplies	5,259	-	-	4,064
Maintenance and repair	802	-	-	-
Insurance	2,291	-	-	1,847
Utilities	8,728	-	-	1,981
Workers' compensation	1,900	-	-	1,100
Training	80	-	-	110
Other services	666	-	-	1,435
Total operating disbursements	<u>145,764</u>	<u>-</u>	<u>-</u>	<u>64,943</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>3,880</u>	<u>-</u>	<u>-</u>	<u>4,847</u>

Non- Operating Sewer	Garbage	Garbage Reserve	Storm Water	Total
\$ -	\$ 75,831	\$ -	\$ -	289,662
-	-	-	9,003	14,606
-	75,831	-	9,003	304,268
-	21,825	-	-	85,186
-	2,991	-	-	21,267
-	-	-	-	57,673
-	27,398	-	-	27,398
-	-	-	43,106	84,240
-	8,895	-	-	18,218
-	-	-	-	802
-	2,065	-	-	6,203
-	-	-	-	10,709
-	2,035	-	-	5,035
-	-	-	-	190
-	-	-	-	2,101
-	65,209	-	43,106	319,022
-	10,622	-	(34,103)	(14,754)

CITY OF ELDON
COMBINING DETAILED SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUNDS
Year Ended June 30, 2012

	<u>Water Operating</u>	<u>Water Depreciation</u>	<u>Water Reserve</u>	<u>Sewer Operating</u>
Non-operating receipts (disbursements):				
Capital contribution	\$ -	\$ -	\$ 7,200	\$ -
Late penalties	3,925	-	-	1,705
Debt Service:				
Principal	-	-	(15,000)	-
Interest	-	-	(12,533)	-
Total non-operating receipts (disbursements)	<u>3,925</u>	<u>-</u>	<u>(20,333)</u>	<u>1,705</u>
Excess (deficiency) of receipts over (under) disbursements	<u>7,805</u>	<u>-</u>	<u>(20,333)</u>	<u>6,552</u>
Transfers in (out):				
Water sinking	(6,000)	-	-	-
Water reserve	-	-	6,000	-
Non-operating sewer	-	-	-	-
Sewer operating	-	-	-	(11,400)
Garbage reserve	-	-	-	-
Net transfers in (out)	<u>(6,000)</u>	<u>-</u>	<u>6,000</u>	<u>(11,400)</u>
Net change in cash balances	1,805	-	(14,333)	(4,848)
Cash balances beginning of year	<u>31,837</u>	<u>10,000</u>	<u>74,673</u>	<u>5,624</u>
Cash balances end of year	<u>\$ 33,642</u>	<u>\$ 10,000</u>	<u>\$ 60,340</u>	<u>\$ 776</u>

See accompanying independent auditor's report.

Non- Operating Sewer	Garbage	Garbage Reserve	Storm Water	Total
\$ -	\$ 3,449	\$ -	\$ -	\$ 10,649
-	-	-	-	5,630
(4,816)	-	-	-	(19,816)
(10,195)	-	-	-	(22,728)
(15,011)	3,449	-	-	(26,265)
(15,011)	14,071	-	(34,103)	(41,019)
-	-	-	-	(6,000)
-	-	-	-	6,000
11,400	-	-	-	11,400
-	-	-	-	(11,400)
-	-	-	-	-
11,400	-	-	-	-
(3,611)	14,071	-	(34,103)	(41,019)
76,949	30,933	6,000	27,635	263,651
\$ 73,338	\$ 45,004	\$ 6,000	\$ (6,468)	\$ 222,632

CITY OF ELDON
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance June 30, 2011</u>
General obligation capital loan note:				
City fire station	December 1, 2004	4.50 \$	250,000	\$ <u>202,397</u>
Revenue notes payable:				
Sewer project	September 2, 1997	4.50	270,900	\$ 226,748
Sewer/water tower	January 13, 2010	3.00	353,000	340,000
Sewer/water tower	July 27, 2011	3.00	62,000	<u>-</u>
				\$ <u>566,748</u>

See accompanying independent auditor's report.

Issued During Year	Redeemed During Year	Balance June 30, 2012	Interest Paid
\$ <u> -</u>	\$ <u> 10,720</u>	\$ <u> 191,677</u>	\$ <u> 9,133</u>
\$	-	\$	
	4,816	\$	221,932
		\$	10,195
	-		
	13,000		327,000
			10,102
<u>62,000</u>	<u>2,000</u>	<u>60,000</u>	<u>1,426</u>
\$ <u> 62,000</u>	\$ <u> 19,816</u>	\$ <u> 608,932</u>	\$ <u> 21,723</u>

CITY OF ELDON
BOND AND NOTE MATURITIES

June 30, 2012

Year Ending June 30,	Revenue Notes		Revenue Notes		Revenue Notes		Total
	Rural Development						
	Sewer Loan		Water tower/sewer		Water tower/sewer		
	Issued September 2, 1997		Issued January 13, 2010		Issued July 27, 2011		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	4.50 %	\$ 5,033	3.00 %	\$ 14,000	3.00 %	\$ 2,000	\$ 21,033
2014	4.50	5,260	3.00	14,000	3.00	2,000	21,260
2015	4.50	5,496	3.00	15,000	3.00	2,000	22,496
2016	4.50	5,744	3.00	15,000	3.00	3,000	23,744
2017	4.50	6,002	3.00	15,000	3.00	3,000	24,002
2018	4.50	6,272	3.00	16,000	3.00	3,000	25,272
2019	4.50	6,555	3.00	17,000	3.00	3,000	26,555
2020	4.50	6,850	3.00	17,000	3.00	3,000	26,850
2021	4.50	7,158	3.00	18,000	3.00	3,000	28,158
2022	4.50	7,480	3.00	18,000	3.00	3,000	28,480
2023	4.50	7,816	3.00	19,000	3.00	3,000	29,816
2024	4.50	8,168	3.00	19,000	3.00	3,000	30,168
2025	4.50	8,536	3.00	20,000	3.00	3,000	31,536
2026	4.50	8,920	3.00	21,000	3.00	4,000	33,920
2027	4.50	9,321	3.00	21,000	3.00	4,000	34,321
2028	4.50	9,741	3.00	22,000	3.00	4,000	35,741
2029	4.50	10,179	3.00	23,000	3.00	4,000	37,179
2030	4.50	10,637	3.00	23,000	3.00	4,000	37,637
2031	4.50	11,116	-	-	-	4,000	15,116
2032	4.50	11,616	-	-	-	-	11,616
2033	4.50	12,139	-	-	-	-	12,139
2034	4.50	12,685	-	-	-	-	12,685
2035	4.50	13,256	-	-	-	-	13,256
2036	4.50	13,852	-	-	-	-	13,852
2037	4.50	12,100	-	-	-	-	12,100
Total		\$ 221,932		\$ 327,000		\$ 60,000	\$ 608,932

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eldon, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Eldon is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Eldon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Eldon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Eldon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Eldon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in part I in the accompanying Schedule of Findings as items I-B-12, I-C-12 and I-D-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in part I of the accompanying Schedule of findings as item I-E-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eldon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards. However, we noted a material instance of non-compliance described as item I-A-12 in Part I of the accompanying Schedule of Findings and certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Eldon's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Eldon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Eldon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eldon and other parties to whom City of Eldon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Eldon during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
March 26, 2013

CITY OF ELDON
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

I-A-12 Financial condition – The following funds had material deficit fund balances at June 30, 2012:

Capital Projects Fund:	
Fire Station Building	\$ <u>19,890</u>
Enterprise Fund:	
Storm Water	<u>6,468</u>

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions. Transfers should be made from appropriate funds to the Capital Projects and Storm Water Funds to eliminate these deficit balances.

Response – We will consider the recommended transfers.

Conclusion – Response accepted.

REPORTABLE CONDITIONS:

I-B-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent and individual employee from handling duties which are incompatible. We noted that the bank deposits, the posting of receipts and disbursements, and check writing are done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having the mayor or a council member periodically reconcile the checking account and trace deposits to the receipt book.

Response – The internal control will be reviewed on a regular basis.

Conclusion – Response accepted.

I-C-12 Fire and Rescue, Library Activity, Gothic Trails, Locktender House, River Overlook, and Eldon Athletic Club– The operating receipts and disbursements for the aforementioned activities are being recorded in separate funds which are not part of the City financial records. Such operating activities should be included as part of the General Fund. Thus the operating disbursements are not being approved by the City Council which has responsibility for all City funds. Also such operating disbursements are not subject to the City's budgetary controls. In addition, the invoices for these activities aren't being properly cancelled after payment and review. The Council lacks general oversight of these activities as a result.

Recommendation – All operating receipts and disbursements should be recorded as part of the City's General Fund financial records subject to normal City controls. All invoices should be properly cancelled along with other City invoices. The funds and any activity may be maintained as a separate fund. However, the Council should receive a report of activity and balances to be included as part of the City financial reporting.

CITY OF ELDON
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements (continued):

- I-C-12 Fire and Rescue, Library Activity, Gothic Trails, Locktender House, River Overlook, and Eldon Athletic Club (continued)

Response – We will investigate implementation of the above recommendation.

Conclusion – Response accepted.

- I-D-12 Checks Written and Held – During the course of our audit, we noted one check totaling \$14,834 that was written prior to June 30, 2012 but was not actually released for payment to vendors until subsequent to year end.

Recommendation – Writing checks prior to year end but holding those checks for release after year end results in an understatement of cash at year end and improper matching of disbursements to the applicable period. This practice also significantly weakens internal controls over the underlying asset. The City should avoid writing and then holding checks in the future. Adjustments were made subsequent to year end to properly reflect this disbursement in the financial statements.

Response – We will avoid this practice in the future and we will properly record all disbursements in the correct period in the future.

Conclusion – Response accepted.

- I-E-12 Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. We also noted one card with a \$10,000 credit limit.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. The policy should also set limits on the amount of credit that can be obtained on any credit card.

Response – We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

CITY OF ELDON
SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget – Disbursements for the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended appropriately in the future, if applicable.

Conclusion – Response accepted.

- II-B-12 Questionable Disbursements – No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- II-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jerry Potts, Council Member, Owner of Jerry’s Progas	Supplies	\$ 199

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member Jerry Potts do not appear to represent a conflict of interest since the total transactions with the individual are less than \$2,500 during the fiscal year.

- II-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-12 Council Minutes – We noted several disbursements that were not properly approved by the Council. We also noted that transfers were not being properly approved by the City Council.

Recommendation – The City Council should make sure all disbursements and transfers are properly approved and documented in the Council minutes.

Response – We will ensure that all disbursements and transfers are approved and documented through the City Council.

Conclusion – Response accepted.

CITY OF ELDON
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- II-H-12 Revenue Notes – No instances of non-compliance with revenue note requirements were noted for the year ended June 30, 2012.
- II-I-12 Annual Report – The City is required to file an annual financial report under Chapter 384.22 of the Code of Iowa. This report was timely filed. However, we noted differences and inconsistencies within the report. The report separates out each type of fund and the amounts for that type of fund are reported in the applicable column. However, we noted that the City had several inconsistencies as to which fund was reported in which column, resulting in misstatements to individual fund balances but an accurate total ending balance for all City Funds.

Recommendation – The City should develop a reporting process which clearly delineates the type of each fund and insures that all amounts are recorded in the proper columns. The City should contact the State Auditor to resolve this situation.

Response – We will develop a method to help insure proper reporting in the future. We will contact the proper authorities.

Conclusion – Response accepted.